Before the

Federal Communications Commission

Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local	)	
Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation	)	
Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109
	)	
Universal Service Reform – Mobility Fund	)	WC Docket No. 10-208

COMMENTS IN RESPONSE TO
FURTHER NOTICE OF PROPOSED RULEMAKING
BY
RURAL TELEPHONE SERVICE COMPANY, INC.
LENORA, KANSAS

January 18, 2012

INTRODUCTION AND SUMMARY

Rural Telephone Service Company, Inc. (RTSC) of Lenora, Kansas, respectfully submits comments to the Federal Communications Commission (Commission) in response to the Further Notice of Proposed Rulemaking (FNPRM) released on November 18, 2011 in the above-captioned proceedings.

RTSC is a rural local exchange carrier (RLEC) that has been providing service in western Kansas since 1951. Currently, RTSC provides service to 11,805 voice access lines with a substantial broadband Internet service penetration level of 70% to 39 rural exchanges in an area that covers 6,546 square miles and averages less than two customers per square mile. Over the past several years, RTSC has made monumental investments in a new broadband network that enables residents, schools, libraries, hospitals, clinics, law enforcement agencies and senior/disability centers in western Kansas to tap the power of cutting-edge broadband technology. This broadband infrastructure has been a catalyst for creating jobs, allowing for the growth and creation of new businesses and maintaining economic stability in rural Kansas.

RTSC is now faced with significant adverse circumstances brought about by the Commission's Order and accompanying FNPRM released on November 18, 2011.[1] In these comments, RTSC will document some of these adverse impacts and will comment upon some of the questions raised by the Commission.

I. Background

On October 1, 2006, RTSC acquired ten exchanges in Kansas from a non-rural carrier. At the time of the acquisition, over 99% of the housing and business units were unserved by broadband from the previous carrier. Many of the subscribers in the acquired exchanges lacked advance

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[1] Report and Order and Further Notice of Proposed Rulemaking In the Matter of Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Lifeline and Link-Up, WC Docket No. 03-109; and Universal Service Reform – Mobility Fund, WT Docket No. 10-208, released November 18, 2011 (*USF/ICC Order*)

telephone features, such as voicemail and conferencing, and were being serviced by lead cabling that disconnected calls during wet weather. Between October 2006 and December 2010, RTSC invested over $55 million in Fiber-to-the-Premise (FTTP) technology to enable improved telephone service and broadband capabilities for all ten acquired exchanges. This investment was primarily funded with a U.S. Department of Agriculture Rural Utilities Service (RUS) loan, scheduled to mature by 2020, requiring annual debt service payments of over $6.7 million. As a result of these improvements, broadband is available to 100% of the acquired exchanges, and over 70% of the households and businesses have subscribed to broadband. Furthermore, RTSC experienced 300% growth in peak bandwidth requirements in the acquired exchanges during 2010.

In addition, RTSC, which believed it was prudently implementing the national goals of bringing broadband service to all areas of the country, applied for and received funding related to The American Recovery and Reinvestment Act of 2009 (ARRA). RTSC has begun using this funding, the RUS loan portion of which is scheduled to mature in 2028, to achieve the stated goals of the ARRA and enable deployment of new high-speed broadband service in unserved and underserved areas.

II. RTSC's Broadband Investment

RTSC has made a significant commitment in the rural areas of Kansas it serves and has made extensive investments to bring modern broadband services to areas where a business case historically could not be made to do so. RTSC is organized as a cooperative, thus is owned by its customers, and it is for the benefit of its customer-owners that it exists. In order to meet the needs set forth by its customer-owners, RTSC has embarked on a mission to bring advanced communications services to a large area in rural, western Kansas, and has done so very successfully, in no small part due to the support provided by federal RUS loans and universal service programs.

There is no doubt that RTSC's commitment and investment in its broadband network has brought a multitude of benefits, both economic and social. With the broadband service RTSC has provided in these areas, the communities are able to attract back to rural areas of Kansas those small businesses and, perhaps more importantly, young people that were rapidly disappearing. There are many examples of what broadband infrastructure has meant to communities in western Kansas of which two are further expanded below:

> Young people and their families are returning to Courtland, Kansas. (See Attachment 1, Article from Salina Journal "The Good Life.") The young adults all agree that technology was essential to their return. "The thing that made it possible was connectivity," Tanner Johnson said. "The service available in Courtland is faster than what was offered in Norman, [Oklahoma,]" he said. Mike Johnson calls it "tele-commuting". "I know a lot of people work at home. They're starting to realize they can work anywhere," he said.
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> Osborne Industries, Inc., the winner of the 2010 Kansas Governor's Exporter of The Year Award, is located in Osborne, Kansas. (See Attachment 2, Article from Salina Journal "New Owners.") Osborne is a community with new broadband service, and Osborne Industries, Inc. was able to expand its operations in part due to its 75 Mbps bandwidth service requirement being met as a result of RTSC's fiber build. General manager Steve Langley said, "Osborne Industries will stay in the community and continue to provide employment opportunities for a long time."

Even with these small business stories made possible by the introduction and provision of quality broadband services in these areas, perhaps the accomplishment RTSC is most proud of is that students in the school systems served by RTSC can now legitimately feel they have the same opportunities as students in more urban school districts because of the quality communications system provided by RTSC.

Another example of a project utilizing the financial assistance of the ARRA is the deployment of a state-of-the-art broadband infrastructure to ten exchanges in RTSC's service area. In January 2010, RTSC was awarded over $26 million from RUS. The purpose of this funding was to enable deployment of new high-speed broadband service in unserved and underserved areas, providing rural areas with bandwidth similar to that which is routinely available in urban areas. This latest project will provide the broadband infrastructure required for job creation, education, and healthcare and create a positive impact on the quality-of-life for residents of western Kansas. The loan portion of the financing is scheduled to mature by the year 2028, requiring annual debt service payments of over $1 million. The project is being built under the guidance and specifications of RUS. To qualify for this financing, RUS required a financial feasibility study to ensure this was a viable plan. The financial analysis using the regulatory framework and revenue streams in place at the time, which included sufficient and predictable universal service funding, justified the financial merits for completing a successful project.

Even with all the success stories made possible by RTSC's investment in broadband-capable networks, RTSC's work is far from complete. As businesses enter the area and demand more and more bandwidth, RTSC will have to continue investing in capacity and facilities to meet this demand. In addition, the move to 4G service by the nation's wireless carriers means more bandwidth will be needed in order to serve the wireless towers and haul the traffic to the Internet backbone and elsewhere. All of this, plus the cost of continuing operations and maintenance of the network RTSC has already built, will take substantial operating capital, which has been placed in dire risk by the Commission's proposed actions.

III. Impacts of the *USF/ICC Order* on RTSC

RTSC has analyzed the impacts of the *USF/ICC Order* and parts of the FNPRM, and for issues relating to Universal Service alone, RTSC estimates it will lose 38% of its high cost loop support (HCLS).[2] This reduction is solely due to the Commission's proposed application of the quantile regression-based capital expense (capex) and operating expense (opex) limitations to HCLS recovery.[3] In total dollars, RTSC expects to lose approximately $4.5 million[4] annually, funds that would ordinarily go to continuing operations, maintenance and debt service on investments RTSC believed it was prudent in making under the national goal of bringing broadband services to all Americans.[5] Obviously, RTSC's choices would have been different had it known the Commission would drastically change the way broadband investment is supported and then apply those changes retroactively (i.e., to investment decisions already made).

Because of the uncertainty presented by the Commission's decision in the *USF/ICC Order* and FNPRM, RTSC has already decided to cut its capital budget by $6 million for 2012, and will likely move towards a zero dollar capital budget in 2013 and beyond. It is clear to RTSC that the overall budget placed on the Connect America Fund (CAF) related to Rate-of-Return (RoR)

[2] See Appendix A attached. This appendix ties into the FCC-developed regression model and new rules resulting from the FCC's *USF/ICC Transformation Order* and uses an NACPL of approximately $505/access line

[3] *USF/ICC Order* at 220

[4] To put this reduction in perspective, RTSC would have to raise monthly rates to its customers by over $30 to make up for the lost HCLS

[5] See e.g., Connecting America: The National Broadband Plan (*NBP*) xi "*But broadband in America is not all it needs to be. Approximately 100 million Americans do not have broadband at home…the United States is behind many advanced countries in the adoption of such technology.*" Of course, the NBP is merely formalizing what has been a policy of the United States since the Telecommunications Act of 1996

carriers - $2 billion[6] - is not designed with the expansion of broadband-capable services in rural areas in mind. It can be reasoned that if current levels of USF support have not been sufficient to ensure broadband service is available to all Americans, then cutting that support will certainly not enable RoR carriers to further expand broadband services. Instead, the direct and immediate impact of the Commission's actions for RTSC will be a major curtailment of its capital expenditure program, which only serves to hurt the rural Kansans living in RTSC's service area. These decisions, coupled with the fact that the long-term CAF for RoR carriers is completely unknown, mean companies like RTSC have absolutely no incentive to make further investments.

Based on the measurable impacts of the *USF/ICC Order*, RTSC concludes that the Commission failed to ensure the provision of specific, sustainable and predictable mechanisms to advance and preserve universal service in accordance with the mandate of the Communications Act of 1934, as amended (the "Act"). In addition to what RTSC and most other RoR RLECs have been able to quantify, there are decisions and proposals made by the Commission relating to USF and intercarrier compensation (ICC) that promise to further erode RTSC's ability to expand and maintain services in rural Kansas. First and foremost of these unknown factors is the Commission's apparent decision to apply the quantile regression-based capex/opex limitations to the Interstate Common Line Support (ICLS) mechanism effective July 1, 2012. RTSC receives over $9.7 million of ICLS, and fears that applying capex/opex limitations to this support will put RTSC in even greater financial jeopardy. RTSC will address the capex/opex limitation proposal further below. It is clear that the almost immediate reductions in support RTSC will likely face will result in a deficit for the support necessary to advance and preserve universal service, and especially hard hit will be RTSC's broadband network, both current and planned.

While RTSC understands the need to ensure publicly-generated funds, such as the CAF, are being used as efficiently and effectively as possible, it is incomprehensible how the Commission justified the inclusion of previous investments in this new efficiency program. This is especially true of the RoR carrier CAF, which does not yet exist. Regardless, RTSC has been building its network since 1951, and has recently, with the assistance of the ARRA, RUS and USF, been investing in a robust, "future-proof", multi-use network that allows for the provision of voice,

[6] *USF/ICC Order* at 126

data and other advanced services. RTSC has designed its network to be in compliance with RUS standards, which recognize that networks are long-term investments backed by long-term financing and, thus, require investments that can reasonably accommodate consumer demand and evolution of advanced services over the life of the investments. RTSC, to its knowledge, has not been informed by its state regulator, the Kansas Corporation Commission (KCC), the National Exchange Carrier Association (NECA), which administers the interstate access pools of which RTSC is a member, the Universal Service Administrative Company (USAC), RUS or, until now, the Commission that any of its previous investments made to provide voice or data services were imprudent, inefficient or wasteful. To inform RTSC now that over $6 million of costs were, in essence, imprudently incurred, without requesting a single shred of data directly from RTSC, is unreasonable and will result in consequences felt well beyond RTSC's customers.

It is well-documented that RLECs, such as RTSC, have impacts on the economies in their regions that reach beyond direct employment and purchases of goods and services. Indirect economic impacts include jobs created and maintained by other businesses in the economic region due to RTSC's presence and economic activity. There are also "induced" economic impacts that result from, for example, jobs created by businesses due to the increase in household income caused by RTSC's presence in the regional economy. Thus, it can be expected that reducing RTSC's revenues by $4.5 million annually will result in an impact far beyond that felt by RTSC's customers, also impacting the regional economy of which RTSC is an important contributor.

IV. Operating and Capital Expense Limitations

As stated above, the estimated impact on RTSC of applying the proposed capex/opex limitations to HCLS recovery is a reduction in support of over $4.5 million annually. While the Commission seems intent upon fitting all study areas into a single model with limited variables scarcely applicable to the real world conditions in which RLECs operate, the issues raised in the FNPRM tell us, among other things, that the quantile regression technique touted is not the regulatory panacea the Commission thinks, or hopes, it is. Indeed, the capex/opex limitation methodology will only serve to stifle investment by *reducing* support, without a solid basis for the reduction, and during a period when the national goal of increasing broadband capable services to more Americans will, naturally, require *more* investment.

A. Retroactive Application of Rule Revisions

First, should the Commission proceed with this policy, which RTSC fervently opposes, there is little question that the results cannot legally be applied on a retroactive basis. In the Commission's own words "*…this methodology also will help to identify those study areas where past investments may have been excessive and cap their reimbursement*."[7] There are numerous flaws with this result, the most egregious being it represents an ill-conceived attempt at retroactive ratemaking and places affected companies in the impossible position of recovering revenue requirements related to previously incurred costs.

As to retroactive ratemaking, the Commission's proposed capex/opex limitation methodology clearly contemplates punishing companies for investment and expense decisions that were considered prudent and reasonable. This type of regulation after the fact has been the subject of much debate and, ultimately, has been rejected time and again.[8] The arguments against retroactive ratemaking or, in the present case, retroactive support adjustment, are simple – regulated companies should be able to make rationale and reasonable decisions under currently effective tariffs, rules, laws and procedures without fear of regulatory reprisal. In a RoR regulated environment, the specter of unrestrained retroactive ratemaking or rule revision ability would essentially freeze investment and force companies to constantly seek regulatory approval for each and every expenditure. Instead of this irrational outcome, the Commission and state

[7] *USF/ICC Order*, fn 351

[8] See, e.g., *Appeal of Pennichuck Water Works, Inc.*, 120 N.H. 562, 566 (1980) "[T]he vehicles by which utility rates are set, the tariffs or rate schedules required to be filed with the PUC…do not simply define the terms of the contractual relationship between a utility and its customers. They have the force and effect of law and bind both the utility and its customers. As such, the customers of a utility have a right to rely on the rates which are in effect at the time that they consume the services provided by the utility, at least until such time as the utility applies for a change. Once customers consume a unit of those services, they are legally obligated to pay for it and in that sense the transaction has been completed and the charges are set in accordance with the rates then in effect and on file with the PUC or with rates later approved by the PUC based on a pending request for a change. If the PUC were to allow a rate increase to take effect applicable to services rendered at any time prior to the date the petition for the rate increase was filed, *it would be retroactively altering the law and the established contractual agreement between the parties."*

regulators have adopted a set of rules and guidelines under which RoR regulated carriers can operate safely…that is, until now. As stated above, RTSC is regulated by numerous entities, and not once has a regulatory authority informed it that any investment or expense that would be impacted by the Commission's proposed capex/opex caps was made imprudently.

The Commission's proposed retroactive application of the capex/opex limitations will also place RTSC in an immediate cost recovery deficit. In order to make up for the reduction in HCLS, RTSC would have to approach its state commission for approval to raise local rates, increase its state universal service support or both. However, the KCC is not likely to look favorably upon a request to allow RTSC to recover lost support that is related to investments made and costs incurred in 2010 and before. Thus, RTSC is left with absolutely no option for recovering costs that, until now, had been supported by HCLS.

Based on the above, RTSC strongly recommends that the Commission abandon its proposal to apply any rule change, such as the significant change represented by the capex/opex HCLS recovery limitations, on a retroactive basis.

B. The Capex and Opex Limitation Proposal

It is clear to RTSC that the proposed capex/opex HCLS recovery methodology, which is based on a quantile regression-based statistical analysis, is flawed and is being utilized incorrectly by the Commission. First, the very basis of the analysis ensures that companies that have invested in robust, "future proof", broadband-capable networks, often in compliance with lender standards, will be punished. Second, the results of the quantile regression-based analysis should not be used to limit any investment or expense, and in the process reduce support, without further analysis.

As RTSC stated above, RUS borrowers are required to obtain engineering approvals for the technical feasibility and system design of RUS-funded projects.[9] The reason for this type of requirement is intuitive – RUS loans represent long-term investments in rural communications

[9] Per the Broadband Initiatives Program NOFA released July 9, 2009

networks. However, the Commission's proposed capex/opex limitation methodology is biased against such network investments in that the methodology includes, as part of the data, the costs of companies that have not built robust, long-term, broadband capable networks. Inclusion of such companies in the quantile regression analysis essentially lowers the average. The Commission then concludes that any company above 90% of its peers in terms of certain investments and expenses has incurred such expenditures imprudently or inefficiently. Such conclusion cannot be justly drawn based on the results of the quantile regression analysis.

At most, the results of the quantile regression analysis should provide the Commission with a reasonable list of "outliers", which may then be used as the focal point of further review regarding the reasonableness of such higher costs. What cannot be done is to automatically reduce support based on the quantile regression analysis without further analysis as to the causes of the higher costs. Even with the Commission's statement that any carrier that believes it requires more support can file a petition for waiver to receive additional support,[10] RTSC states that the waiver process under the new rules is so onerous as to be basically a last ditch option.[11] In addition, RTSC states that the presumption that investment or expenses incurred are imprudent based solely on the quantile regression analysis is misplaced and should be rejected. Thus, a waiver should not be necessary for RLECs to receive all support calculated under HCLS rules.

V. Conclusion

At the encouragement of the President, companies like RTSC have recently invested millions of dollars through the ARRA to bring broadband infrastructure to rural areas that historically have had insufficient broadband service. In the process, these RLECs have created jobs and strengthened the economy to promote the survival of these remote, rural areas. RTSC takes pride that it has utilized RUS funding to do exactly what the administration has envisioned with the Broadband Stimulus Program. As illustrated in examples in the above comments, consumers and businesses are reaping the benefits today in a broadband network engineered to

[10] *USF/ICC Order* at 222
[11] See also *Rural Association PFR* at 19-22

serve them for years into the future. During this critical juncture, the United States needs forward-looking policies that allow RLECs to continue building, upgrading and operating broadband networks.

The Commission's proposals in the *USF/ICC Order* and FNPRM blatantly ignore the Act's mandate for a sufficient and predictable universal service mechanism, and will only serve to kill incentives for investment and innovation in the rural areas it claims to want to assist. Promoting a regression model which applies caps to prior investments under the guise of "incentives" is contradictory policy. The Commission is, in essence, punishing compliant RLECs for investment and expense decisions that were considered prudent and reasonable. RTSC would certainly have made different decisions regarding its broadband infrastructure investments had it known the Commission would drastically and retroactively change the way broadband investment is supported. Furthermore, the Commission's actions present a real danger to the ability of RUS borrowers, like RTSC, to repay loans.

RTSC specifically recommends the Commission abandon the capex/opex recovery limitation methodology altogether and, instead, focus on alternate initiatives to ensure that HCLS and other support mechanisms are spent efficiently without harming consumers and penalizing carriers that have done nothing less than comply with the national mandate to provide rural areas with the modern communications services others in urban areas enjoy.

RESPECTFULLY SUBMITTED,

Larry E. Sevier
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January 18, 2012

Photo by Jeff Cooper - *Salina Journal*

The Good Life

By TIM UNRUH
Salina Journal

COURTLAND -- Diapers and pacifiers are back in vogue at Courtland, where tykes are again frolicking in the parks and roaming safely about.

They're connected to stroller-pushing parents who have moved home over the past five or more years. The trend has stabilized this Republic County's population at 300, or just a skosh more, left only one vacant storefront downtown and clogged housing.

"The good thing is we've got traffic on Main Street," said Bob Mainquist, who co-owns the weekly Courtland Journal newspaper with his wife, Colleen.

"It's a wonderful thing to see these young people back here in town. It's a lifeblood," said Mike Johnson, owner and president of Swedish American State Bank.

The influx has squelched previous notions that Pike Valley School District was in jeopardy, said Chris Vignery, high school principal and superintendent of schools.

The kindergarten-through-eighth-grade school is in Courtland and the high school is in Scandia.

The school, which averages 18 in each class, projects next year's kindergarten to have 13 pupils, falling to 11 in 2013, he said. But by 2014, the expectation is a kindergarten with 16 students, thanks in part to growing families.

"Five years ago, some people thought we needed to look toward consolidation because of declining enrollment," Vignery said. "I don't think that's a consideration anymore."

Some returnees admit to an intense desire to leave for big cities and explore the world when they left high school, which is a common attitude for youngsters.

But some minds have changed, especially as the young adults age when their broods grow and opportunities surface closer to home.

More plan to come home

More than 20 people who have completed college degrees within five years of the class of 2005 have moved back, said Luke Mahin, 24, and more are planning to relocate home.

"You did have thoughts as a teenager that you couldn't wait until you could leave," said Troy Newman, 38, a co-owner of Ag Marketing Partners in Courtland.

"We probably thought that until we left for a week. It sounds a lot cooler to go places than it actually is," he said.

Troy and his wife, Christy, have a 2-year-old son, Peter. On Tuesday morning, Peter gained a little brother, Reed.

Troy Newman relocated his portion of the business in 2008 from Holdrege, Neb., to his hometown. His other two partners operate out of Westcliffe, Colo.

The strong farm economy and Internet service made the move possible, Newman said.

"When I graduated (Pike Valley) in 1991, we had just gone through the '80s. It was kind of doom and gloom," he said. "People have hope now and it definitely has helped our business."

Seven homes a block east of downtown Courtland are occupied by at least five young families. They're mixing in black, brunette and blonde with the gray hair that abounds in so many small Kansas towns.

Courtland relocation

Many of the relatively young residents -- from their 20s to early 40s -- fostered friendships in high school that contributed to pulling them back home after leaving and achieving some level of higher education.

They have returned to raise their offspring in the safe confines of a tiny hometown.

"We call it the Courtland Relocation Project," said Jennifer Russell, 31, a Glen Elder native who is among some eight spouses of Courtland natives who agreed to move back to their other half's childhood home. Her husband, Jay, 39, was a kid in Courtland and now works for Newman. They share an office building with Jennifer, owner of JenRus Freelance, an Internet marketing service, and Nex-Tech, which is the cable, telephone and Internet service provider.

Find an agreeable woman

"Our theory is (single Courtland men) find women who are agreeable, translate well to a rural area, and are amicable to moving back," Jennifer said.

The Russells have a 3-year-old son, Owen.

The movement has been "wonderful" for Courtland, Mayor Tim Garman said, and a wise move by the young families.

"You always hear that you would like to raise your kids up in more of our kind of community," he said. "It's theoretically safer."

The owner of Garman & Sons TV and Appliances, Tim is the "Sons" in the title. He got his start working for his father, Chad. After graduating from Courtland High School in 1973, Tim Garman started his full-time career at home.

"I knew I was coming right here to work," he said.

Among the forces at play is a welcoming attitude from the longtime residents.

"When they find out people are wanting to move back, they do all they can, whether through moral support or any other way," Mahin said.

Among the names mentioned in Courtland is John Blackburn, a farmer-stockman. With the exception of two years in the U.S. Army, Blackburn, 82, has spent all of his life within two miles of Courtland.

"We've had a good life in Courtland, seen it grow, and other little towns go by the wayside," he said.

Older residents' support

The group of students that Newman and Russell were attached to were a close-knit bunch, Blackburn said. "We encouraged them to go to college."

But when those youngsters wanted to come home, they were welcomed.

Older folks in Courtland "support our businesses," Troy Newman said.

Another key is busting the myth that coming home translates as failure.

The Good Life continued on page 2

The Good Life continued:

Mahin, Jennifer Russell and others are part of the PowerUps movement at the Kansas Sampler Foundation, a group of rural young people focused on promoting small-town living and flourishing at it.

"We find that people hesitate about moving back because they think they'll be seen as a loser," said Marci Penner, of Inman, the founder and director of the Kansas Sampler Foundation and PowerUps.

Towns such as Courtland have gained momentum with their youths returning because some had the courage to take the chance first.

"When they see others moving back, it erases that stigma," Penner said. "At some point, the memory kicks in about why you loved growing up in a small town."

The true myth, she said, "is that all young people leave rural Kansas and don't ever want to come back."

Jobs are to be had

There are jobs to be had, Blackburn said, such as Premium Feeders, a cattle feedlot near Courtland and an ethanol plant in Scandia, which is six miles east. Mahin's brother, Ethan, 21, is working at the windfarm near Concordia.

"I hired a lot of those kids in the summertime to help haul (hay) bales," Blackburn said. "Courtland is kind of in the heart of an irrigation district. It take a darn sight more people to farm irrigated ground than dryland."

Others mimicked Courtland Mayor Garman and joined a family business. Blackburn mentioned Brock Hanel, 26, a veterinarian who has joined his father Lannie's practice. Brock's wife, Angie, is a registered nurse working in Belleville.

The couple's goal, Lannie Hanel said, was to move back to this rural area where they could work and start a family. They're expecting a child in July, Lannie said.

"We have got a lot of young kids (Brock's) age moving back, and it's tremendous, a boost to the community," Lannie Hanel said. "They're aggressive kids who want to get things started.

The Russells were living in Downs in 2010 when they migrated back to Courtland. Jennifer was working for Brush Art, an advertising agency, and Jay was working for a bank in Downs.

"My thought was 'What will I do if I come back?' We had good jobs where we lived," Jennifer Russell said.

Start your own business

The solution was starting her own business, JenRus Freelance, an Internet marketing firm she started in 2009 that specializes in social media and search engine optimization.

She hired an assistant, Mahin, 24, starting part-time in June 2010. The 2005 Pike Valley graduate completed a bachelor's degree in communication studies in 2010 from Fort Hays State University.

He worked as a substitute teacher and for C&W Farm Supply -- the New Holland dealer in Courtland -- before his employment at JenRus was upgraded to full-time in August.

"You have to be creative enough to find other ways to get along until you get what you need," Mahin said.

Both the entrepreneur and the employee are convinced that opportunity exists in Courtland, but it doesn't come with an information packet.

"You can't just go to Monster.com (employment website)," Jennifer Russell said.

A strong farm economy contributed mightily to Newman coming back and hiring Jay Russell.

But there was some risk in returning, Newman said. It requires a bold approach.

"A lot of people said for years that 'you can't do this.' If you believe that, you don't try," Newman said.

There are benefits to being where you're truly wanted, and where setting up shop is less expensive.

"We couldn't afford this office in Salina," he said.

Quality of life issue

Tanner Johnson, 35, the information technology and marketing officer at Swedish American State Bank, returned to Courtland in October with his wife, Kathy, 36, a registered nurse at Republic County Hospital in Belleville and their two children, Ella and Sam. They were living in Norman, Okla.

Tanner doubles as the CEO of aPeel, an interactive marketing agency that develops websites and web applications.

"A lot of it was the quality of life for our kids. It's one thing I really enjoyed growing up in this area, not something I'd trade," Tanner Johnson said.

A lack of good houses

Housing is the current bane in Courtland, Mayor Garman said.

"Affordable housing seems to be the biggest problem we have," he said. "People want to move here, but we don't have any place for them to live."

Some houses had deteriorated to the point that they were torn down, Garman said, and financing new construction has been difficult.

The city would follow the lead of other towns -- Ellsworth, Marquette and Minneapolis -- and give away housing lots "if we owned them," he said. "The city tries not to own lots."

The younger demographic has swallowed up available homes.

"It's a good problem to have," said bank owner and president Mike Johnson, Tanner's dad.

Mahin, for example, is preparing to move into his third rental since 2010. He first roomed with a cousin, then a friend. Next, he may rent space with his brother.

"I would like to build a house, but I just don't have the capital yet," Mahin said.

Lots are available and they're reasonably priced at about $1,000 each.

"It's not like going to the city and paying $100,000 for a lot, and then putting a house on it," Mike Johnson said. "We've financed a lot of homes for these young people, and the Nex-Tech building that went up."

Have to have technology

The young adults all agree that technology was essential to their return.

"The thing that made it possible was connectivity," Tanner Johnson said. The service available in Courtland is faster than what was offered in Norman, he said.

Mike Johnson calls it "tele-commuting," and it's helping in Courtland.

"I know a lot of people work at home. They're starting to realize they can work anywhere," he said.

With technology in place, rural towns can compete, Tanner Johnson said.

"These little towns can be the boom towns of the next 50 years with the way agriculture prices are and the changes the Internet's made to the job market," he said. "The landscape is changing. You can work for AT&T and live in Courtland, Kansas. Five or 10 years ago, that just wasn't possible."

Mahin is confident he could make it somewhere else, but he enjoys a sense of freedom in Courtland.

"I don't feel like I'm a slave to my job. I have a lot more ownership in the community," he said.

Finding a mate

As someone who would like to someday marry and start a family, Mahin admits that one negative is a relatively small pool of eligible bachelorettes.

But as more young people move back, he said, "There are a lot more options now than there used to be."

Mahin's advice to others pondering a return is for the system to include coming home as an option.

"We educate on the opportunities outside of a community," he said. "We need to start asking more often for our youths to come back."

-- Reporter Tim Unruh can be reached at 822-1419 or by email at tunruh@salina.com.

Attachment 2

Photos by **TOM DORSEY** / Salina Journal

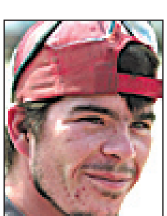
Osborne Industries general manager Steve Langley announces the transfer of company ownership to its 120 employees at a ceremony Wednesday.

New owners

Employees now run Osborne's biggest company

By TIM UNRUH
Salina Journal

OSBORNE — Now that he's one of 120 new owners of Osborne Industries, Mark McCra expects more from himself on the job.



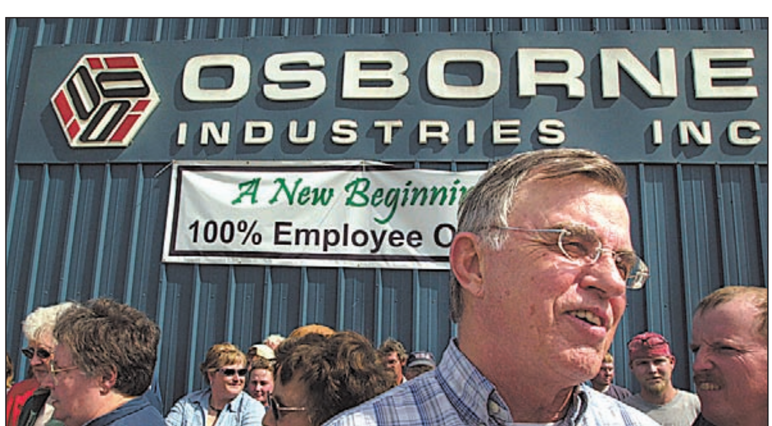
McCra

"I think everybody will be willing to do a little bit extra," said McCra, 19, Downs.

The 34-year-old company's general manager, Steve Langley, announced to employees in a surprise ceremony Wednesday that Osborne Industries was 100 percent employee owned.

"Doesn't that sound good?" he said. "Osborne Industries will stay in the community and continue to provide employment opportunities for a long time."

The workers, some with strands of fiberglass on their hair and uniforms, applauded the news. After the plant was shut down early in the afternoon, they were bused to the Osborne County fairgrounds to the quonset hut where the company began, in 1973, making warming pads that keep animals, particularly newborns, warm.



Osborne Industries President Stan Thibault visits with employees after a company picture at company headquarters.

"They just loaded us up and brought us, kind of kept us in the dark," said worker Teresa Elson, 23.

Hailed as a "new beginning," the announcement means the town's biggest employer is going to stay here, chief engineer George Eakin said. The 20-year Osborne Industries worker doubles as Osborne's mayor.

"I see a retirement fund that I can depend on. I'm glad we have this," said Joyce Hartsock, 46, who works in molding production and has been employed at the company for 24 years.

Hartsock

Today, Osborne Industries makes not only warming pads but some 1,500 agricultural products in a 242,000-square-foot plant. It is a leading maker of automated livestock equipment and a custom molder of original plastic parts for several companies. Its products are marketed globally, and

See **OWNERS**, Page **A3**

Attachment 2

TOM DORSEY / Salina Journal

Osborne Industries workers leave a quonset hut Wednesday where the company started making products in 1973.

Owners / Transfer ensures company will stay in Osborne

FROM PAGE A1

Osborne Industries maintains warehouses in the United States and England and has a sales office in China.

The transfer of ownership is through an Employee Stock Ownership Plan that was formed in 2000. Osborne Industries transferred 30 percent of the company stock to employees in 2001, and the remaining 70 percent was transferred Monday. It was made public Wednesday.

Salina-based Sunflower Bank, which has a branch in Osborne, loaned money to the ESOP trust, which paid the sellers for their stake in the business. The money to pay off the debt to Sunflower Bank will come from company profits, said Amy Conrad, an account manager at Osborne Industries and a member of the ESOP Communications and Advisory Committee.

A Sunflower representative, senior loan officer Jim VanEmburgh, Salina, was on hand Wednesday for the ceremony.

"You are really fortunate to have a piece of the American dream," VanEmburgh said. "Some of our best and most valued customers have started in a place like this, a quonset hut or a garage."

Stan Thibault, one of the owners of Osborne Industries, said he has wanted the employees to own the company for 19 years and has been working on such a plan for the past nine. The company has attracted interest from other buyers, he said, but a sale to employees was the only one that would ensure the firm would stay in Osborne.

The key to employee ownership is having a healthy company, he said, referring to the debt the ESOP is to repay through profits.

"It's not really made for sick companies. You've got to have it in order. Our company is solid," Thibault said.

Langley challenged the new owners to accept the challenge to grow sales by 50 percent over the next five years. And he added this goal: "Let's have fun."

"Osborne Industries is a small-town America success story. Ownership is a powerful incentive for ordinary people to do extraordinary things," he said.

After posing for a photograph with his colleagues, Osborne Industries employee Don Riffel, 53, said he was pleased.

"I'm a business owner. That does make me happy," he said.

■ *Reporter Tim Unruh can be reached at 822-1419 or by e-mail at sjtunruh@saljournal.com.*

Appendix A

1/2/20124:15 PM

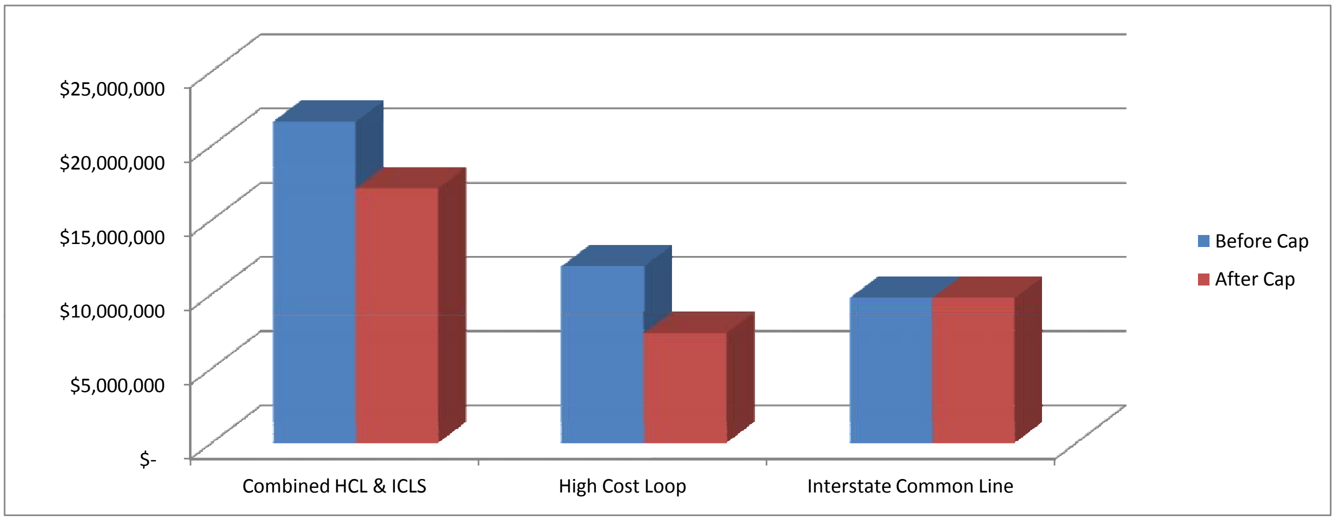
411826	STUDY AREA CODE
RURAL TEL SERVICE CO	STUDY AREA NAME
KS	STATE

ESTIMATED CHANGES IN HCL & ICLS

HCL without Caps (status quo Corp Ops limit)	$	11,878,268			
Reduction from 90th Quantile CapEx & OpEx Caps	$	(4,516,686)			
Change from New Corp Ops Exp Limit Calc	$	-			
High Cost Loop Support (capped)	**$**	**7,361,583**	HCL per Loop	$	72.75
% Change		-38.0%			
Interstate Common Line Support (status quo)	$	9,746,220	ICLS per Loop	$	96.31
Corporate Operations Expense Limit to ICLS	$	-	Total per Loop	$	169.06
Reduction in Support ($250 per loop per month limit)	$	-	Reduction	$	80.94
Interstate Common Line Support (capped)	**$**	**9,746,220**			
% Change		0.0%			

Combined HCL & ICLS

			Change ($)	**Change (%)**
Before Caps	**$**	**21,624,488**		
After Caps	**$**	**17,107,803**	$ (4,516,686)	-20.9%



PROOF OF REGRESSION CALCULATION

RECALCULATION OF FCC CAPPED STUDY AREA COST PER LOOP

AS13	CWF Main Exp to Cat 1	$	1,494,473
AS14	COE Main Exp to Cat 4.13	$	766,256
AS15	Network & General Support Exp to CWF 1 & COE 4.13	$	625,810
AS16	Network Ops Exp to CWF 1 & COE 4.13	$	733,278
AS17	Depr/Amort Exp to CWF 1	$	2,792,358
AS18	Depr/Amort Exp to COE 4.13	$	1,199,108
AS19	Corp Ops Exp to CWF 1 & COE 4.13 - Status Quo Limit	$	859,867
AS20	Operating Taxes to CWF 1 & COE 4.13	$	829,922
AS21	Benefits (non-Corp Ops) to CWF1 & COE 4.13	$	1,555,550
AL22	Rents assigned to CWF 1 & COE 4.13	$	1,439,084
AL23	Return Component for CWF 1	$	2,438,891
AL24	Return Component for COE 4.13	$	186,844
AL25	Total Unseparated Costs	$	14,921,440
AL26	Revised Study Area Cost Per Loop (SACPL)	**$**	**1,769.41**
	Revised SACPL per FCC	$	1,769.00

Appendix A

1/2/20124:15 PM

411826	STUDY AREA CODE
RURAL TEL SERVICE CO	STUDY AREA NAME
KS	STATE

REGRESSION CAP CALCULATION

FCC REGRESSION ANALYSIS VARIABLES

1	Loops (DL 060)	8,433
2	Housing Units (non-urbanized area)	12,712
3	Housing Units (urbanized cluster)	2,159
4	Housing Units (urbanized area)	-
5	Land Area (non-urbanized area)	6,388.7215
6	Land Area (urbanized cluster)	2.0629
7	Land Area (urbanized area)	-
8	Percent Water	0.003096
9	Census Blocks (non-urbanized area)	10,599
10	Census Blocks (urbanized cluster)	230
11	Census Blocks (urbanized area)	-

90th QUANTILE CAPPED COSTS

		ACTUAL AMOUNT	CAPPED AMOUNT	CAP ROOM / DISALLOWED COSTS
AS1	CWF & Leases deemed Cat 1	$ 61,100,996	$ 59,493,498	(1,607,498)
AS2	COE 4.13 including Leases	$ 19,645,716	$ 13,395,992	(6,249,724)
AS7	Materials & Supplies to CWF 1	$ 805,426	$ 951,823	146,398
AS8	Materials & Supplies to COE 4.13	$ 258,967	$ 214,006	(44,961)
AS9	Accum Depr&Amort + Non Def'd Op Tax to CWF 1	$ 39,663,393	$ 38,619,894	(1,043,499)
AS10	Accum Depr&Amort + Non Def'd Op Tax to COE 4.13	$ 17,523,891	$ 11,949,165	(5,574,726)
AS13	CWF Main Exp to Cat 1	$ 2,748,200	$ 1,494,473	(1,253,727)
AS14	COE Main Exp to Cat 4.13	$ 1,511,263	$ 766,256	(745,007)
AS15	Network & General Support Exp to CWF 1 & COE 4.13	$ 1,641,286	$ 625,810	(1,015,476)
AS16	Network Ops Exp to CWF 1 & COE 4.13	$ 1,838,486	$ 733,278	(1,105,209)
AS17	Depr/Amort Exp to CWF 1	$ 2,792,358	$ 2,792,359	1
AS18	Depr/Amort Exp to COE 4.13	$ 1,972,229	$ 1,199,108	(773,122)
AS19	Corp Ops Exp to CWF 1 & COE 4.13 - New Limit	$ 952,558	$ 859,867	(92,691)
AS20	Operating Taxes to CWF 1 & COE 4.13	$ 919,385	$ 829,922	(89,463)
AS21	Benefits (non-Corp Ops) to CWF1 & COE 4.13	$ 2,725,378	$ 1,555,550	(1,169,828)
AL22	Rents assigned to CWF 1 & COE 4.13	$ 1,594,211	$ 1,439,084	(155,128)
AL23	Return Component for CWF 1	$ 2,502,341	$ 2,455,361	(46,980)
AL24	Return Component for COE 4.13	$ 267,839	$ 186,844	(80,995)
AL25	Total Unseparated Costs	**$ 21,465,535**	**$ 14,937,910**	**(6,527,624)**

Directly Capped Costs from Regression Analysis

Indirect Caps based on flow through of Direct Caps and Actual Results

EXTRAPOLATED UNALLOCATED COST CAPS

HCL Data Line	ACCOUNT	ACTUAL AMOUNT	CAPPED AMOUNT	CAP ROOM / DISALLOWED COSTS
170	Materials & Supplies	$ 1,662,994	$ 2,015,417	352,423
430	Cable & Wire Facility Expense (excl. benefits & rents)	$ 5,803,301	$ 1,691,803	(4,111,498)
410	Central Office Expense (excl. benefits & rents)	$ 4,246,380	$ 2,495,380	(1,751,000)
335 + 350	Network & General Support Expense (excl. benefits & rents)	$ 3,710,936	$ 1,083,157	(2,627,779)
450	Network Operations Expense (excl. benefits & rents)	$ 3,980,378	$ 1,269,162	(2,711,216)
530	Depreciation Expense - Cable & Wire Facility	$ 3,077,897	$ 3,161,062	83,165
525	Depreciation Expense - Central Office Equipment	$ 4,379,527	$ 3,904,999	(474,528)
565	Corporate Operations Expense	$ 1,488,264	$ 1,719,096	230,832
650	Operating Taxes	$ 1,436,435	$ 1,436,435	0
600	Benefits (non-Corp Ops)	$ 4,518,919	$ 2,692,357	(1,826,562)
610	Rents	$ 2,490,776	$ 2,490,776	0

(Note: changes in CWF 1 and COE 4.13 investment will change Indirect Cap Amounts)